Do not throw out this report.

ANNUAL REPORT 1971

AR31

OSF INDUSTRIES LIMITED

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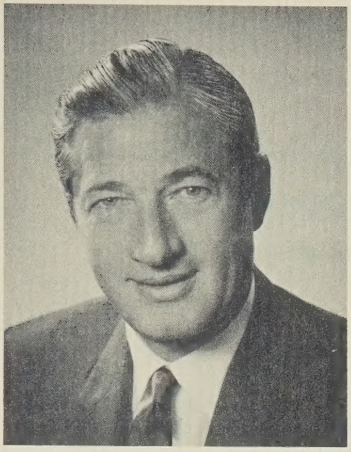
G. W. Robinson Co. Hamilton, Ontario



TO THE SHAREHOLDERS

The enclosed financial statements and notes set out in detail the results for the 1971 fiscal year. Your Company made a basic decision to discontinue its real estate operations and will be disposing of all these interests to concentrate its efforts on our very rapidly growing and profitable business of the fixtures and food service divisions. The decision to move out of the real estate field is the explanation for the non-recurring extraordinary writedown.

Unfortunately, our entrance into the real estate area coincided with very high interest rates, difficulty in obtaining mortgage commitments and slow public response to condominium ownership housing — the field in which the real estate division was concentrated. As set out in the notes, we will be seeking to recover income taxes as a result of this loss. The real estate division has been an inordinate drain on the finances of your company as well as on the time and energy of management.

The management and board have decided to concentrate their efforts on our historically-successful fixture and food service business where sales are increasing dramatically, and demand for our long-established skills are leading us into new markets.

I would point out that sales of the fixture and food service divisions increased by 36% to a record level and orders in hand already indicate a further increase in the current year of approximately 38%, to about $20 million. Despite moves into expanded facilities and installation of new equipment and other interruptions occurring in any expansion, your company has been able to maintain its normal profit margins of at least 10% before taxes in these divisions, which are the foundation of OSF Industries.

The major influence on the activities of your company is a development which can only be described as a "retailing revolution". Undoubtedly you are aware of the many expansion programmes under way by prominent retail organizations in every field — food, soft goods, department stores, jewellery, variety, and discount stores. Our customers are deeply involved in this expansion and have turned to us for assistance in design, manufacturing and installation of the fixtures, fittings and equipment. As we extend our activities and undertake a complete package, the size of individual contracts increases. For example, we are completing a contract of approximately $2 million on the west coast for one of our chain-store accounts.

Peoples Jewellers Calgary, Alberta

OSF Industries Limited is a group of specialist companies providing many retail chains and commercial organizations of all sizes with design, fabrication, supply and installation of every item required in the fitting out of stores, food and beverage service premises, and general office buildings.

By integrating the diverse experience of our qualified staff with comprehensive manufacturing facilities, OSF has the full capability to meet the requirements of any project: from a complete shopping centre to individual stores — specialty restaurants and bars to the largest institutional food service operation — single executive suites to an entire commercial office complex.

In most instances, OSF handles every stage from concept to opening day. Our consultants and planners also work in collaboration with specialized design firms. Thus we provide store fixtures, displays, kitchen equipment, public area furniture and fittings, and complete office planning systems both as "single source" supplier and as a primary supplier to other

T. Eaton Company Bramalea, Ontario. "...Custom-Built Units for the most eye-catching visual designs..."

consultants. OSF's engineering and design personnel undertake planning and construction of building extensions, renovations, custom store fronts and all interior architectural elements. The various divisions that form OSF have been carefully integrated. They can supply every service required in completing a project. OSF group operations in construction, store fixtures, display, food service and furniture all use our modern, well-equipped woodworking, cabinet making, metal fabricating, upholstery, finishing and assembly plants.

ONTARIO STORE FIXTURE

Ontario Store Fixture is the principal division and foundation of the overall company group. The present corporate name, OSF Industries Limited, stems from a company founded in 1926 as Ontario Store Fixture Co. Today, automated production lines and modern fabricating methods are housed in over 300,000 sq. ft. of factories and warehouses. This division specializes in meeting the tight schedules of fabrication and installation of store fixtures and fittings. For example, a major department store of 6 floors covering

Upper Left Photo
T. Eaton Company Bramalea, Ontario.

Lower Left Photo
'Vista-One' Modular Merchandising System installed for T. Eaton Company.

Lower Right Photo
'Vista-One' Installation for
Towers Department Store Rexdale, Ontario.

110,000 sq. ft. was completely renovated and fitted out with fixtures and fittings — without closing down for a single day, and currently OSF is doing all the interior work for this client's two new department stores.

OSF now offers a range of unique and patented products for mass display that provide the flexibility of modular construction as well as custom-built units for the most eye-catching visual designs. We also supply every type of metal merchandising fixture including the patented "Vista One" and "Vista Four" now in standard use with many of the major retail chains across Canada.

ANKO METAL PRODUCTS LIMITED

Formerly a supplier, Anko Metal Products Limited was acquired by OSF in January 1971 and now is a wholly-owned subsidiary. Anko manufactures shelving display units and a wide range of metal products. Originally operating in 10,000 sq. ft., Anko has now been located in a new building of over 80,000 sq. ft. in Weston, Ontario.

Upper and Lower Photos — "Construction of building extensions, renovations, custom store fronts and all interior architectural elements..." One of seven branches recently renovated for the Bank of Montreal.

Typical installations for Woolco Department Stores. "...We provide store fixtures, displays, kitchen equipment, public area furniture and fittings..."

With numerous presses, the largest of which has a 275 ton capacity, roll forming mill and automated cutting, slitting, forming and welding machines, Anko handles every stage of its own steel fabrication from raw steel coils to epoxy coated finished products. Under the management of Mr. Edward Kohn and assisted by Mr. Virgilio Pires, plant manager, Anko is proud to have accomplished a Canadian "First" in metal finishing techniques in our industry. Electrostatic dry powder coating is the most recent development in high-production paint finishing. This results in a superior product and continuing cost savings in the reclaiming and recycling of all overspray. There are no chemical emissions into the atmosphere from this plant and all liquid effluents are treated to meet the strictest water control standards.

Anko now has the capability to meet all OSF metal fabrication requirements and is designed for future expansion.

SUCCESS DISPLAY LIMITED

To provide our clients with every item needed for effective presentation of

Upper Photo
Drug City — operated by Kent Drugs Limited, The Oshawa Group.

Lower Left Photo
'Vista-One' installation for Towers Department Stores.

Lower Right Photo
'Vista-Five' — a new development in Modular Metal Fixturing, primarily for Drug Stores.

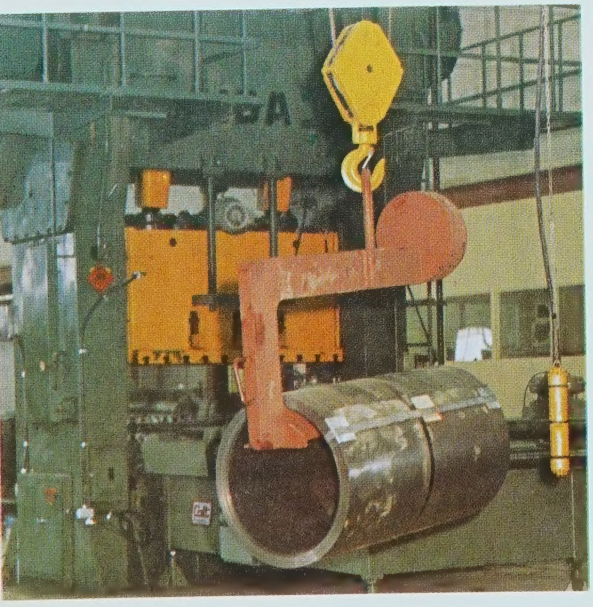
merchandise, OSF offers the innovative capabilities of Success Display Limited, a specialized division located in Scarborough, Ontario.

Success is a leading Canadian supplier of high quality custom metalwork for the display of merchandise. In contrast to Anko's mass production, Success is geared to smaller, specialty custom projects. Working in metal and plastic, Success' craftsmen produce hanging racks, displays and fittings for every type of merchandise.

Special lighting effects to dramatize displays are also produced and installed by Success. Managed by Mr. Casey Vandenberg, this division is building a healthy export business across the United States, where its imaginative designs and unusual products are in great demand.

OSF FOOD SERVICE DIVISION

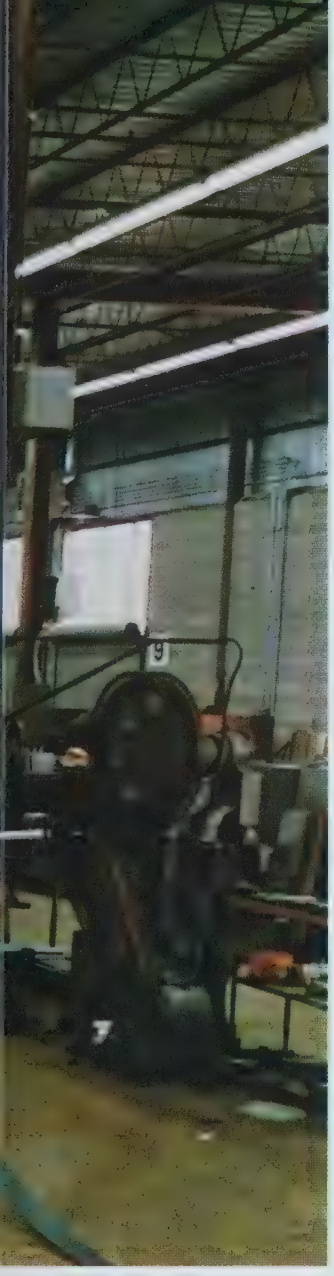
The Food Service Division of OSF, under the direction of Mr. Sydney M. Sobel, plans, designs, specifies, fabricates, installs



Upper Left Photo — Partial view of the Anko Production Line.

Upper Right Photo — The completely automated Epoxy Coating Plant.

Lower Left Photos
"...From raw steel coils to Epoxy coated finished products."
The Control Console of the Epoxy Coating Plant.



and services equipment required for the service of food and beverages in commercial and institutional installations. Mr. Sobel is a member of the International Society of Food Service Consultants.

An example of this division's scope — OSF has planned and built the extensive kitchens and bars in 33 Hotels for Commonwealth Holiday Inns of Canada Ltd. and is presently supplying an additional 11 Holiday Inns — (6 in Canada, 4 in the United Kingdom and 1 in the Caribbean).

OSF Food Service contracts range from industrial operations to every kind of commercial outlet including "fast food" restaurants and dining rooms. OSF's designers have produced many striking and memorable colour themes for bars and restaurants. A recent accomplishment by this group is the Tanaka of Tokyo Restaurant, Toronto's first authentic Japanese steak house. OSF carried out the research necessary for the completion of the design, material procurement and construction.

THE YOUNG MAJORITY

LAUNCHING PAD
STAIRWAY DOWN

Left Photos
"...Effective presentation of merchandise," specialized display stands by Success Display Limited.

Right Photos
"The Food Service Division plans, designs, specifies, fabricates, installs and services equipment required for the service of food and beverages in commercial and institutional installations..."

PROGRESSIVE FOOD SERVICE EQUIPMENT LIMITED

An expansion of the Food Service Division saw the acquisition in January 1971 of Progressive Food Service Equipment Limited, one of Canada's leading manufacturers of stainless steel products. The Progressive plant occupies 40,000 sq. ft. in Weston, Ontario. Progressive now offers custom fabrication for every type of Food Service Equipment. OSF clients are well represented in the accommodation industry, entertainment and resort facilities, institutions, hospitals and public buildings. Some of the products include dishwashing facilities, hot and cold food preparation units, mobile containers and servers, exhaust canopies and refrigeration units.

AKA WORKS LIMITED

Aka Works Limited, located in Montreal, P.Q., was recently acquired to improve service in Eastern Canada. The company has its own woodworking and cabinet-making plant, handling projects in their entirety or in conjunction with the main OSF plant in Toronto. Aka is managed by

F. W. Woolworth Company Thompson, Manitoba

Mr. Andre Kasaks and has been in operation for 22 years. Aka will enable the OSF metal divisions to extend their sales and service facilities into this region.

CONCEPT FURNITURE INTERNATIONAL LIMITED

The latest development in office layout is the use of the Open Office Plan. Managed by Mr. Vaughn Cofell, Concept Furniture International Ltd. has been engaged in over two years of extensive research, design and development. This research has resulted in the creation of the "Module 360" Open Office Planning System. "Module 360" has found wide acceptance, particularly in the United States. Contracts obtained include such installations as the Johnson Community College in Kansas City, the Wharton School of Business at the University of Pennsylvania in Philadelphia, and the International Monetary Fund in Washington D.C. "Module 360" has also been selected by the External Affairs Department for certain areas of the Canadian Embassy in Peking.

"OSF's designers have produced many striking and memorable decor themes..."
Tanaka of Tokyo Restaurant, Toronto

OSF OVERSEAS

OSF is active in the United Kingdom. A separate division, OSF Industries (International) Limited, has been formed to service this market. Sales office, showroom and warehouse are located at Chessington, Surrey, on major transportation routes a few miles south of London. OSF will also use this division as a base for future expansion into the European market. The United Kingdom operation has proven to be an invaluable extension of the home office, providing necessary facilities for servicing the needs of Holiday Inns and other clients in the food service industry.

Self service and modern mass merchandising methods are only now being accepted by many of the larger United Kingdom retailers. Our expertise, patented mass display merchandisers, design and installation know-how make us ideally equipped to actively pursue this substantial market.

The first contracts of OSF Industries (International) Ltd. for the fixturing and installation of stores have already been received from two of the largest British retail chains.

'Module 360' by Concept

Upper Photos —
Whiteco and Associates
Merrillville, Indiana.

Lower Photo —
American Bar Association
Chicago.

In Canada, we operate nation-wide. To improve our service in Quebec and in the Maritimes, we have acquired Aka Works Ltd., in Montreal, a woodworking firm. The expansions and other activities of our subsidiaries are outlined elsewhere in the report. Our major problem has been in our capacity to increase production to keep pace with the unusually rapid acceleration of the demand for our services and products. The requirements of some of our customers are carrying us into international markets. In the latter part of the past year OSF Industries (International) Limited was incorporated in England where we are now providing the design and fabrication for hotel and chain store interiors, fixtures, and equipment. We anticipate a substantial growth in business next year in the United Kingdom. Your company is also becoming more active in the United States.

Concept Furniture International Ltd., our subsidiary concentrating on systems for business offices and institutions, has completed its organization and developed its product line. Concept is currently involved in many large installations in the USA. All development and promotional costs have been absorbed by the fixtures and food service division as current expenses. In the latest fiscal year, a loss of approximately $350,000 in Concept was written off. While we expect only modest profits to be generated from Concept in 1972, we believe it should reach its potential in 1973.

OSF Industries has negotiated a license agreement for Canada and the United Kingdom, for the manufacturing and selling rights of the patented Almore line of metal fixtures used by supermarket chains. This should prove to be a valuable addition to our product line.

I would like to express my gratitude and appreciation, as well as that of the other directors, to the senior staff and to all employees for their efforts and co-operation.

On behalf of the Board of Directors

Toronto
May 29, 1972

Milton Shier,
President

O S F Industries Limited and Subsidiary Companies

CONSOLIDATED STATEMENT OF INCOME

For the year ended December 31, 1971 (with comparative figures for 1970)

	1971	1970 Restated (Note 7)
Revenue — fixture and food service	$14,570,310	$10,697,868
Income from operations before depreciation and amortization of fixed assets	$ 1,163,043	$ 1,276,981
Depreciation and amortization of fixed assets	117,225	85,484
Income before Taxes on Income	1,045,818	1,191,497
Taxes on Income — Current (Note 7)	743,350	701,346
— Deferred (Note 11)	—	60,470
	743,350	761,816
Income before Extraordinary Items	302,468	429,681
Extraordinary Items		
*Loss from real estate operation (Note 5)	(3,100,000)	(26,277)
Excess of the value assigned to the common shares issued by the company over the book value of the interests acquired by the company	—	(27,621)
	(3,100,000)	(53,898)
Net Income (Loss) for Year	$ (2,797,532)	$ 375,783
Earnings per share before extraordinary items (Note 12)	$ .14	$ .21
Net earnings (loss) for year per share (Note 12)	(1.33)	.18

*Real estate gross revenue for 1971 was $9,396,782 (1970 — $3,332,241)

(See accompanying notes to consolidated financial statements)

CONSOLIDATED STATEMENT OF DEFICIT

For the year ended December 31, 1971 (with comparative figures for 1970)

	1971	1970 Restated (Note 7)
Deficit — January 1		
As previously reported	$ (846,441)	$ (1,215,570)
Cancellation of prior years' income taxes recoverable (Note 7)	(124,724)	(20,687)
As restated	(971,165)	(1,236,257)
Net income (loss) for year	(2,797,532)	375,783
Dividends paid	(112,644)	(110,691)
Deficit — December 31	$ (3,881,341)	$ (971,165)

(See accompanying Notes to Consolidated Financial Statements)

O S F Industries Limited and Subsidiary Companies

CONSOLIDATED BALANCE SHEET

December 31, 1971
(with comparative figures for 1970)

ASSETS

	1971	1970 Restated (Note 7)
Short-term deposit receipts	$ —	$ 755,600
Accounts receivable (Note 2)	**3,910,093**	1,973,368
Accounts receivable — real estate	**252,729**	139,449
Inventories, at lower of cost or net realizable value	**2,570,427**	2,168,159
Note receivable from shareholder (Note 3)	**234,866**	234,866
Mortgages receivable — real estate (Note 4)	**790,909**	1,793,484
Real estate (Note 5)	**20,028,304**	25,769,947
Investments, at cost	**100,550**	96,499
Property, plant and equipment, at cost less accumulated depreciation and amortization of $705,857 (1970 — $422,790)	**610,477**	341,929
Goodwill representing excess of cost of shares in wholly-owned subsidiary companies over underlying equities at time of acquisition (Note 1)	**340,567**	—
Amounts receivable from Roberts Realty of the Bahamas, Limited (at nominal value) (Note 6)	**1**	1
	$28,838,923	$33,273,302

(See accompanying Notes to Consolidated Financial Statements)

AUDITORS' REPORT

To the Shareholders of O S F Industries Limited

We have examined the consolidated balance sheet of O S F Industries Limited and its subsidiaries as at December 31, 1971 and the consolidated statements of income, deficit and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

As disclosed in Note 5, the company has decided to discontinue the real estate operations carried on directly by it and by its subsidiaries, and to dispose of the real estate. The real estate properties on hand at December 31, 1971 were written down to their estimated realizable values. The resultant real estate loss of approximately $3,270,000 has been reduced by the recovery of income taxes of approximately $170,000 applicable to those losses from the real estate operations carried on directly by the parent company.

As further disclosed in Notes 5 and 7 the parent company will attempt to recover income taxes with respect to the loss resulting from the write down of the carrying values of the shares in and advances to its subsidiary, Grozbord, King & Associates Limited to their estimated realizable values and the loss on disposition of shares in and advances to its former subsidiary, Roberts Realty of the Bahamas, Limited.

In our opinion, subject to the determination of the ultimate loss on disposal of the real estate and the amounts if any, of income taxes recoverable referred to above, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year as restated.

Toronto, Ontario
May 29, 1972

STARKMAN, KRAFT, ROTHMAN, BERGER & GRILL
Chartered Accountants

LIABILITIES AND SHAREHOLDERS' EQUITY

	1971	1970 Restated (Note 7)
Bank indebtedness — secured by book debts	**$ 1,778,709**	$ 135,420
Bank indebtedness — real estate — secured by book debts	**525,335**	826,549
Accounts payable and accrued liabilities	**2,947,393**	1,568,066
Income taxes payable (Notes 5 and 7)	**1,209,591**	677,000
Other taxes payable	**344,175**	186,253
Notes payable to shareholders	**102,000**	—
Customers' deposits	**538,317**	827,427
Accounts payable and accrued liabilities — real estate	**1,377,967**	3,101,439
Purchasers' deposits — real estate	**599,983**	409,782
Loans payable — real estate (Note 8)	**679,000**	1,222,025
Mortgages payable — real estate (Note 9)	**15,403,118**	18,223,375
Deferred profit on sale of real estate (Note 10)	**222,641**	253,707
Deferred income taxes payable (Note 11)	**104,062**	215,382
Total Liabilities	**$25,832,291**	$27,646,425
Shareholders' Equity		
Capital Stock (Note 12)		
Authorized		
1,500,000 6% non-voting, non-cumulative, non-participating redeemable preference shares with a par value of $1 each		
7,500,000 Common shares without par value		
Issued and Fully Paid		
2,136,450 Common shares (1970 — 2,085,200 common shares)	**$ 6,887,973**	$ 6,598,042
Deficit	**(3,881,341)**	(971,165)
	3,006,632	5,626,877
	$28,838,923	$33,273,302

Approved on behalf of the Board:

M. SHIER, Director

S. SOBEL, Director

O S F Industries Limited and Subsidiary Companies

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

For the year ended December 31, 1971
(with comparative figures for 1970)

	1971	1970 Restated (Note 7)
Source of Funds		
From Operations		
Net income (loss) for year	**$ (2,797,532)**	$ 375,783
Non-cash items included in the determination of net income as described below	**(16,854)**	149,408
	(2,814,386)	525,191
Increase in bank indebtedness	**1,619,178**	(74,790)
Decrease in real estate	**5,742,355**	(11,598,901)
Decrease in mortgages receivable — real estate	**1,002,575**	(1,493,484)
Increase in accounts payable and accrued liabilities	**1,285,519**	(226,661)
Decrease in short-term deposit receipts	**755,600**	77,400
Increase in income taxes payable	**530,504**	845,344
Increase in other taxes payable	**151,175**	(53,047)
Increase in notes payable to shareholders	**102,000**	—
Increase in purchasers' deposits — real estate	**190,201**	409,782
Issue of common shares	**13,931**	15,822
Decrease in note receivable from shareholder	**—**	35,000
	8,578,652	(11,538,344)
Use of Funds		
Increase in accounts receivable	**1,764,173**	(270,107)
Increase in accounts receivable — real estate	**113,280**	139,449
Increase in inventories	**375,677**	457,342
Increase in investments	**3,537**	940
Increase in property, plant and equipment	**343,930**	92,774
Decrease in bank indebtedness — real estate	**301,214**	(466,917)
Decrease in customers' deposits	**289,110**	(262,968)
Decrease in accounts payable and accrued liabilities — real estate	**1,723,472**	(1,794,899)
Decrease in loans payable — real estate	**543,025**	(1,222,025)
Decrease in mortgages payable — real estate	**2,820,257**	(8,322,624)
Payment of dividends	**112,644**	110,691
Purchase of goodwill	**188,333**	—
	8,578,652	(11,538,344)
Non-cash items included in the determination of net income		
Depreciation and amortization of fixed assets	**125,532**	92,383
Deferred income taxes	**(111,320)**	60,470
Excess of the value assigned to the common shares issued by the company over the book value of the interests acquired by the company	**—**	27,621
Transfer to income of deferred profit on sale of real estate	**(31,066)**	(31,066)
	$ (16,854)	$ 149,408

(See accompanying Notes to Consolidated Financial Statements)

O S F Industries Limited and Subsidiary Companies

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1971

Note 1: **Principles of Consolidation**

The consolidated financial statements include the accounts of the company and all of its subsidiaries as at December 31, 1971.

Effective January 1, 1971, the company acquired all of the issued shares of Progressive Food Service Equipment Limited and Anko Metal Products Limited for a total consideration of $901,000 which amount was paid for by cash and promissory notes payable totalling $625,000 and the issue of 46,000 fully paid common shares of the company valued at $276,000. The excess of the aforementioned purchase price of $901,000 over the underlying equities of the two companies at time of their acquisition in the amount of $340,567 was allocated by the company to goodwill. The accompanying consolidated statement of income for 1971 includes the net income of these subsidiaries for the entire 1971 year.

Note 2: **Accounts Receivable**

The accounts receivable include the following:

	1971	1970
Instalment notes and accounts receivable less allowance for doubtful accounts and unearned interest	$3,784,685	$1,932,005
Other receivables and prepaid expenses	125,408	41,363
	$3,910,093	$1,973,368

Instalment notes include net amounts of $332,000 (1970 — $343,000) due after one year.

Note 3: **Note Receivable from Shareholder**

This non-interest bearing note from Marc-Jay Investments Inc. is due on December 15, 1972.

Note 4: **Mortgages Receivable — Real Estate**

Second mortgage receivable on an apartment building sold and leased back by the company (Note 10), repayable $20,000 principal plus 7½% interest annually, maturing March 1, 1979	$ 260,000
Second mortgages receivable taken back on sales of suites in a co-operative apartment building repayable by blended monthly payments of principal and interest, (10%), amortized over 35 years and maturing in 35 years	357,113
Second mortgages receivable taken back on sales of suites in condominium apartment buildings repayable by blended monthly payments of principal and interest, (9¾% to 10½%), amortized over 30 years and maturing in 10 to 30 years	173,796
	$ 790,909

Note 5: **Real Estate**

The company has decided to discontinue the real estate operations carried on directly by it and by its subsidiaries, and to dispose of the real estate. Based on an independent appraisal report dated April 17, 1972, the real estate properties on hand at December 31, 1971 were written down to their estimated realizable values. The resultant real estate loss for the year of approximately $3,270,000 has been reduced by the recovery of income taxes of approximately $170,000 applicable to those losses from real estate operations carried on directly by the parent company. The $3,100,000 loss has been shown in the accompanying consolidated statement of income for 1971 as an extraordinary item and for comparative purposes the 1970 real estate loss has been reclassified and similarly shown.

For income tax purposes, the parent company intends to write down the carrying values of its shares in and advances to its wholly-owned subsidiary, Grozbord, King & Associates Limited, in which company substantially all of the real estate loss occurs, to their estimated realizable values and deduct the resulting loss of approximately $3,500,000 from its fixture and food service taxable income. The parent company, based on an opinion from its tax counsel, has decided that should the taxation authorities not allow this loss, as aforementioned, it will pursue the matter in the courts. Should the company be successful, the maximum amount of income taxes so recoverable would be approximately $1,750,000 which amount, because of the uncertainty of this matter at the present time, has not been deducted from the aforementioned $3,100,000 loss.

The following is a summary of the company's real estate holdings valued at their estimated realizable values including the company's percentage interest of the real estate holdings owned by way of joint ventures:

*Condominium and co-operative apartment and town house units	$ 8,121,879
**Rental apartment building — Toronto	2,650,000
Rental apartment building — Guelph	1,324,617
Rental commercial plaza — Waterloo	128,245
***Serviced land	5,600,400
Undeveloped land	1,929,129
Advances to joint ventures in excess of percentage interests therein	229,901
Miscellaneous real estate assets	44,133
	$20,028,304

*As at December 31, 1971 there were 468 condominium and co-operative apartment and town house units unsold. Subsequent to December 31, 1971 the company sold 124 of these units for approximately $2,500,000. 30 of these units were sold for approximately $600,000 subject to a guarantee given by the company's subsidiary, Grozbord, King & Associates Limited to repurchase these units within the period of eighteen to twenty-four months after their original date of purchase for their original purchase price plus $1,000 per unit.

**Subsequent to December 31, 1971 the company sold its apartment building in Toronto for $2,650,000 and leased it back for a period of five years. The purchaser paid the company $420,000, assumed an existing first mortgage of approximately $2,050,000 and gave the company back a second mortgage for $180,000 bearing interest at 7½% per annum and maturing in five years. Pursuant to the terms of this lease, the company will receive all rental income from the apartment building and will pay an annual rental equal to all capital and operating charges of the building together with an amount of $37,500 to be paid to the lessor annually.

***Pursuant to an agreement dated December 14, 1971 the company has agreed to sell certain of its serviced land for a maximum amount of $2,080,000 to a joint venture, in which the company will have a 50% interest, for the construction by the joint venture partner of a rental apartment building. The completion of this sale and the amount of the selling price is subject to the company being able to obtain certain changes and approvals with respect to this property from the various regulatory bodies.

Pursuant to an agreement dated December 14, 1971 the company has agreed to sell certain of its serviced land for a maximum amount of $1,325,000 and received a deposit thereagainst of $300,000. The completion of this sale and the amount of the selling price is subject to the company being able to obtain certain changes and approvals with respect to this property from the various regulatory bodies.

Note 6: **Amounts Receivable from Roberts Realty of the Bahamas, Limited**

Subsequent to December 31, 1971, the company received first mortgages on certain waterfront town house condominium units located on Great Harbour Cay, Bahamas, amounting to approximately $220,000 bearing interest at 9½% per annum and maturing over a period of approximately ten years. The mortgages were taken in full satisfaction of the advances which were due from Roberts Realty and which were written off by the company in a prior year.

Note 7: **Income Taxes** (See also Note 5)

The company's subsidiary Concept Furniture International Limited, has accumulated losses for tax purposes of approximately $535,000 which amount will be deductible from any future profits generated by Concept as follows:

Year of Loss	Amount of Loss	Deductible to
1969	$ 39,000	1974
1970	149,000	1975
1971	347,000	1976
	$535,000	

Income taxes of $124,724 which were set up as recoverable as at December 31, 1970 with respect to the accumulated losses of Concept and another subsidiary up to December 31, 1970 have been cancelled. As a result the deficit as at December 31, 1970 previously reported as $846,441 has been restated to show a retroactive charge of $124,724. Of the $124,724, $104,037 is applicable to 1970 and has been charged to income for that year. The remaining $20,687 is applicable to 1969 and has been charged to deficit at that date, previously reported as $1,215,570.

On January 18, 1972, the parent company filed a Notice of Objection in respect of its 1970 taxation year and claimed as a deduction from its taxable income previously reported in that year the loss of approximately $2,238,000 on disposal of its shares in and advances to its former subsidiary, Roberts Realty of the Bahamas, Limited. The parent company, based on an opinion from its tax counsel, has decided that should the taxation authorities not allow the loss it will pursue the matter in the courts. Should the company be successful, the maximum amount of the income taxes recoverable would be approximately $1,100,000. However, because of the uncertainty of this matter at the present time, no amount has been reflected in these financial statements for the income taxes, if any, which may be so recoverable.

Note 8: **Loans Payable — Real Estate**

Secured Loans	
13½%, secured by the second mortgage receivable of $260,000 on apartment building, due January 7, 1972	$170,000*
13½%, secured by the second mortgages receivable of $357,113 on suites in co-operative apartment building, due September 3, 1972	250,000**
Unsecured Loans	
16%, payable on demand	50,000
13%, due July 1, 1972	84,000
12%, payable on demand	125,000
	$679,000

*The loan of $170,000 was repaid subsequent to December 31, 1971 out of the proceeds of a new loan for $200,000, payable $15,000 principal plus 12% interest annually maturing in five years.

**The loan of $250,000 was repaid subsequent to December 31, 1971 out of the proceeds of a new loan for $440,000, bearing interest at 11% per annum and maturing by 1975.

Note 9: **Mortgages Payable — Real Estate**

The following is a summary of the mortgages payable on real estate as at December 31, 1971:

	Mortgages Payable
Condominium and co-operative apartment and town house units	$ 6,652,761
Rental apartment building — Toronto	2,251,136
Rental apartment building — Guelph	930,000
Rental commercial plaza — Waterloo	50,000
Serviced land	4,543,087
Undeveloped land	976,134
	$15,403,118

Mortgages payable on the condominium and co-operative apartment and town house units amounting to $6,427,161 at December 31, 1971 bear interest at rates averaging 9½% per annum, are repayable in blended monthly payments of principal and interest amortized over periods from 30 to 35 years and mature at varying times from 10 to 35 years. The mortgages are being assumed by purchasers of the units as sales are closed. An interim second mortgage of $225,600 was repaid subsequent to December 31, 1971 from the proceeds of a new interim second mortgage for $350,000, bearing interest at 12½% per annum, repayable as units are sold and maturing in 1974.

The first mortgage payable of $2,051,136 on the rental apartment building, Toronto, was assumed by the purchaser thereof under a sale and leaseback agreement subsequent to December 31, 1971, as set out in Note 5. The second mortgage payable of $200,000 was repaid.

The interim first mortgage payable on the rental apartment building, Guelph in the amount of $930,000 bears interest at 12% per annum and matures in 1973.

The first mortgage payable on the rental commercial plaza, Waterloo in the amount of $50,000 bears interest at 13% per annum and matures on July 1, 1972.

The mortgages payable on serviced land amounting to $4,543,087 as at December 31, 1971 bear interest at rates averaging approximately 10% per annum.

Principal repayments are due approximately as follows:

1972	$4,226,250*
1973	235,785
1974	4,000
1975	27,372
1976	28,662
Thereafter	21,018
	$4,543,087

*Mortgages payable totalling approximately $2,500,000, substantially all of which are due in 1972, are on the serviced land which the company has agreed to sell, as set out in Note 5. Mortgages payable totalling approximately $285,000 which were due in 1972 were renewed for a period of one year.

The mortgages payable on undeveloped land amounting to $976,134 as at December 31, 1971 bear interest at rates averaging approximately 8% per annum.

Principal repayments are due approximately as follows:

1972	$ 148,500
1973	258,418
1974	277,622
1975	1,300
1976	258,667
Thereafter	31,627
	$ 976,134

Note 10: Deferred Profit on Sale of Real Estate

This profit resulted from the sale and leaseback of an apartment building in 1969 and is being taken into income on a straight-line basis over the ten year period of the lease. Pursuant to the terms of this lease, the company will receive all rental income from the apartment building and will pay an annual rental equal to all capital and operating charges of the building together with an amount of $49,500 to be paid to the lessor annually.

Note 11: Deferred Income Taxes Payable

For accounting purposes the company:

(a) depreciates its fixed assets on the diminishing balance basis at various rates;

(b) recognizes the profit on jobs sold under conditional sales contracts at the time of completion;

(c) amortizes on a straight-line basis the profit on the sale and leaseback of a rental building over the term of the lease;

(d) capitalizes the carrying charges of real estate under development and construction; and

(e) eliminates inter company profits in inventories on consolidation.

For income tax purposes the company:

(a) depreciates its fixed assets at the maximum allowable rates;

(b) defers the profit on jobs sold under conditional sales contracts that are financed for a period beyond two years;

(c) provides a reserve against the profit on the sale and leaseback of the rental building;

(d) writes off the carrying charges of real estate under development and construction; and

(e) does not eliminate inter company profits in inventories on consolidation.

The deferred income taxes payable result from the different treatment accorded the above for accounting and tax purposes.

Note 12: Capital Stock

The following is a summary of the changes in the issued common shares of the company during the year ended December 31, 1971:

2,085,200	shares issued as at January 1, 1971	$6,598,042
46,000	shares issued for the shares of Anko Metal Products Limited	276,000
5,250	shares issued for cash on exercise of employees' stock options	13,931
2,136,450	shares issued at December 31, 1971	$6,887,973

As at December 31, 1971 there were outstanding warrants to purchase 123,334 common shares of the company at $17.50 per share exercisable at any time up to 1975. In addition, employees' stock options on 28,750 common shares of the company exercisable at various prices from $2.25 to $5.40 at various dates up to May 17, 1978 were outstanding at December 31, 1971. If the aforementioned warrants and options were exercised there would be no dilutive effect on the company's current earnings per share.

Subsequent to December 31, 1971 an option was granted on 50,000 common shares of the company exercisable at $5 per share at various times up to December 31, 1974. This option was granted in connection with certain management and consulting services to the company and its subsidiaries. Additional employees' stock options were granted on 77,500 common shares at $4.95 per share, exercisable at various dates up to 1982.

Note 13: Commitments and Contingent Liabilities

The company and certain of its subsidiaries have leased their premises under long-term leases expiring between 1980 and 1986 at combined annual rentals of approximately $185,000 plus realty taxes and other occupancy charges.

A subsidiary of the company has made commitments to purchase equipment for its newly leased plant of approximately $375,000 as at December 31, 1971.

The company is contingently liable for the percentage interest of its partners, in certain real estate joint ventures amounting to approximately $3,130,000 at December 31, 1971. To satisfy these contingent liabilities the company would have available the percentage interest of its partners in the joint venture assets amounting to approximately $3,322,000 at December 31, 1971.

The company is a defendant in a number of actions brought by certain creditors of its real estate division. In the opinion of management any liabilities which may arise from these actions have been adequately provided for.

During the year a complaint was filed against the company and another defendant in a United States District Court, California, U.S.A. by the former President of a U.S. subsidiary of Roberts Realty of the Bahamas, Limited alleging breach of an alleged oral employment agreement by the defendants and claiming damages in connection therewith of $2,500,000. In April 1971, the District Court dismissed this action against the company and the other defendant. This decision is presently under appeal. In the opinion of the company's U.S. solicitors, the company should be successful in this action. No provision has been made in these financial statements for any liability which may arise from this action.

Reference is made to Notes 5 and 10 with respect to other commitments and contingent liabilities.

Note 14: Remuneration of Directors and Officers

The aggregate direct remuneration paid to the directors and senior officers of the company for the year ended December 31, 1971 amounted to $227,618 (1970 — $227,658).

OSF INDUSTRIES LIMITED

DIRECTORS

MILTON SHIER

SYDNEY SOBEL

HARRY SHIER

IRVING BECKERMAN, C.A.

JOSEPH J. McDONALD

OFFICERS

MILTON SHIER, President

SYDNEY SOBEL, Vice-President

HARRY SHIER, Secretary-Treasurer

WILLIAM T. GUNNING, Controller

REGISTRAR AND TRANSFER AGENT

CANADA PERMANENT TRUST COMPANY
Toronto, Ontario and Montreal, Quebec

AUDITORS

STARKMAN, KRAFT, ROTHMAN, BERGER & GRILL
Toronto, Ontario

BANKERS

THE BANK OF NOVA SCOTIA
Toronto, Ontario

THE BANK OF MONTREAL
Toronto, Ontario

SHARES OUTSTANDING

2,136,450 outstanding common shares of the Company are listed on the Toronto Stock Exchange.

HEAD OFFICE

2256 LAKE SHORE BLVD. WEST
TORONTO, ONTARIO

SUBSIDIARIES

PROGRESSIVE FOOD SERVICE EQUIPMENT LIMITED
Weston, Ontario

ANKO METAL PRODUCTS LIMITED
Weston, Ontario

SUCCESS DISPLAY LIMITED
Scarborough, Ontario

CONCEPT FURNITURE INTERNATIONAL LIMITED
Toronto, Ontario

OSF LAND DEVELOPMENTS LIMITED
Toronto, Ontario

AKA WORKS LIMITED
Montreal, Quebec

GROZBORD, KING & ASSOCIATES LIMITED
Toronto, Ontario

MAITLAND BUILDING CORPORATION (YORK) LIMITED

GROZBORD, KING ENGINEERING LIMITED

NABOB DEVELOPMENTS LIMITED

OSF INDUSTRIES LIMITED TORONTO